

BUMRUNGRAD HOSPITAL PLC

No. 84/2015

23 September 2015

Company Rating:	A+
Issue Rating:	
Senior unsecured	A+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/10/11	A	Stable

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Rating Rationale

TRIS Rating upgrades the company rating and the existing senior unsecured debenture rating of Bumrungrad Hospital PLC (BH) to “A+” from “A”. The upgrades reflect the significant improvement in BH’s profitability and cash flow, while its leverage is expected to remain low despite its investments in new facilities under the master plan. The ratings continue to reflect BH’s leading position in the private segment of the healthcare industry in Thailand and its strong market position in the medical tourism segment. However, these strengths are partially offset by BH’s single premise limitation and intense competition from local and international providers of healthcare services.

BH operates a hospital in Bangkok under the name “Bumrungrad International Hospital”. The company is a leading private healthcare provider in Thailand and the Asian region, with service capacities of 6,220 outpatients per day and 676 registered inpatient beds (including Ulaanbaatar Songdo Hospital in Mongolia). The company focuses mainly on the tertiary care treatment. Foreign patients account for more than 50% of the total number of patient visits annually. About 70% of total revenue is from self-pay patients.

BH’s strong business profile reflects its solid brand equity with more than three decades of respectable clinical outcomes. BH mostly targets premium local and foreign patients and competes with differentiation on services and quality. The company has a very strong revenue generating capacity per patient, a key factor in attracting and retaining talented medical staff and specialists.

Patients from the Middle East account for the largest portion of BH’s total foreign patients. Revenue contribution from foreign patients comprised around 60%-65% of BH’s total revenues. The relatively high contribution of foreign patients helps enhance BH’s revenue base and profitability since foreign patients usually have longer length of stay and higher revenue intensity. In addition, the diverse nationalities of its patients help reduce its reliance on domestic demand for healthcare services.

BH’s financial profile has benefited from the strong growth in its revenues and profitability. Revenues have grown at a compound annual growth rate of 11% over the last five years. Revenues rose from Bt9,201 million in 2009 to Bt15,630 million in 2014. The rise was driven not only by increases in patient volume and price, but also higher revenue intensity. The company’s operating margin, as measured by operating income before depreciation and amortization as a percentage of revenue, has increased steadily over the last five years, from around 23.5% in 2010 to around 28% in 2014 and 31% in the first half of 2015. As a result, BH’s earnings before interest, tax, depreciation, and amortization (EBITDA) improved to Bt4,605 million in 2014, up from only Bt2,404 million in 2010.

For the first seven months of 2015, the number of Thai patients declined. Despite the decline, BH’s revenue continued growing, supported by rising numbers of international patients. Revenues from foreign patients for the first seven months of 2015 rose to Bt5,719 million, up by 27% from the same period last year. Revenues from Thai patients, both inpatients and outpatients, in the first seven months of 2015 stood at Bt3,028 million, up by only 1% year-on-year (y-o-y). Going forward, TRIS Rating expects BH to continue delivering solid operating performances. Revenue is expected to grow by around 10% per annum during the

next three years. The operating margin is expected to remain healthy, averaging 28%-30% or higher annually over the next three years.

BH is currently expanding yet still focusing on the premium healthcare segment. The company has acquired two land plots nearby existing campus for its future expansion. One plot is on Petchaburi road and the other is on Sukhumvit Soi 1. On the Petchburi road site, BH will build a 200-bed hospital facility. The total investment for the Petchburi road project is approximately Bt8,200 million (excluding the cost of land). The Petchburi road campus received the Environmental Impact Assessment (EIA) approval in January 2015. The construction is expected to start in the first quarter of 2016 and finish by the end of 2018. The Sukhumvit Soi 1 plot will comprise three buildings, one of which is primary for parking lot, with the investment cost over Bt2,200 million. Thus, BH's total capital expenditures for 2015-2018 will be around Bt16,000 million (including maintenance capital expenditures of Bt1,000-Bt1,300 million per annum).

BH's liquidity is relatively strong. At the end of June 2015, cash on hand and marketable securities stood at Bt7,236 million. Funds from operations (FFO) are strong and are expected to range from Bt4,000-Bt5,000 million per annum during the next three years. At the end of June 2015, BH's total debt comprised only Bt5,000 million of long-term bonds. The total debt to capitalization ratio stood at 29.80%. BH's significant amount of cash on hand and strong cash flow from operations should be sufficient to fund its capital expenditures during 2015-2018. Therefore, BH's leverage should not significantly deteriorate from the current level.

Rating Outlook

The "stable" outlook is based on the expectation that BH will maintain its leading position in the premium healthcare segment and continue delivering strong financial results. Its high cash balances and the stability of its cash flow will provide financial flexibility while the company is investing and expanding. Looking forward, despite the company's investment plan, BH's debt-to-capitalization ratio should not significantly increase from the current level.

BH's credit ratings could be upgraded should the company successfully diversify its business portfolio while maintaining a strong financial profile. In contrast, the rating downside may occur if BH's operating performance drops sharply from the current level, leading to noticeably weaker profitability and less liquidity for the extended periods.

Bumrungrad Hospital PLC (BH)

Company Rating:	A+
Issue Ratings:	
BH16DA: Bt1,500 million senior unsecured debentures due 2016	A+
BH18DA: Bt1,000 million senior unsecured debentures due 2018	A+
BH21DA: Bt2,500 million senior unsecured debentures due 2021	A+
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Leading private hospital in premium and medical tourism segments
- Improving profitability and cash flow
- Sound liquidity and financial flexibility
- Growing demand for healthcare

Weaknesses/Threats

- Intense competition
- Risk from a single location

CORPORATE OVERVIEW

BH operates a hospital in Bangkok under the name "Bumrungrad International Hospital". The company was established in 1980 as a 220-bed facility. BH was listed on the Stock Exchange of Thailand (SET) in 1989. In 1997,

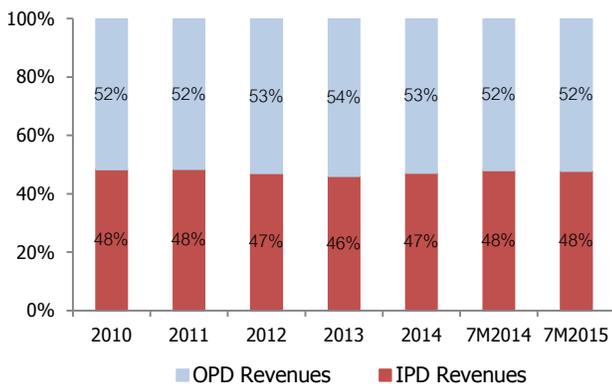
the company opened a 554-bed facility operated by a subsidiary, Bumrungrad Medical Center Co., Ltd. (BMC). In 2004, BMC sold all its movable assets and transferred its hospital operating licenses back to BH.

The company's flagship hospital in Bangkok generates over 95% of total revenue. At the end of June 2015, the hospital had service capacities of 5,500 outpatient (OP) visits per day and 580 registered inpatient (IP) beds. For the company's hospital in Mongolia, the hospital had service capacities of 720 OP visits per day and 88 registered IP beds. The revenue contribution from the Ulaanbaatar Songdo Hospital (UBSD) in Mongolia comprised 1% of BH's total revenue. The net profit from UBSD contributed only 0.4% of BH's total net profit. The revenue contributions from the OP and IP segments have stayed about equal. Foreign patients account for approximately 60% of BH's total revenue. About 70% of

BH's total revenue is from self-pay patients. The remaining 30% is from insurance payments and corporate contracts. Corporate contracts cover patients from large private companies.

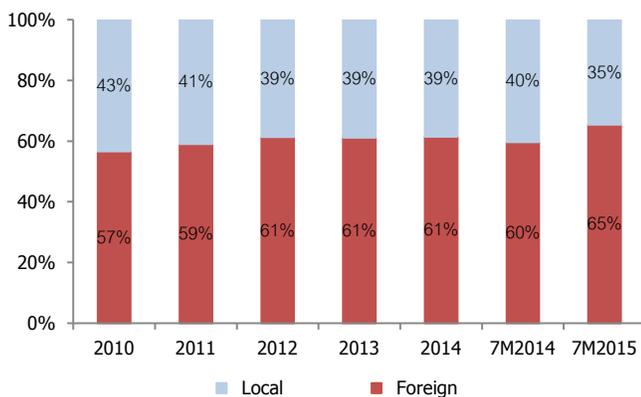
At the end of June 2015, BH's single largest shareholder was Bangkok Dusit Medical Services PLC (BDMS), holding about 24% of BH's total outstanding shares. BDMS became BH's largest shareholder in 2010. The second largest shareholder was Bangkok Bank PLC (BBL) and its affiliates, which include BBL, Sinsuptawee Asset Management Co., Ltd., and Bangkok Insurance PLC. BBL and its affiliates together held approximately 24.53%.

Chart 1: BH's Revenue Contribution by Service Type



Source: BH

Chart 2: BH's Revenue Contribution by Nationality



Source: BH

RECENT DEVELOPMENTS

▪ **Petchburi Campus received the EIA approval**

BH has acquired the land plot nearby existing campus for its future expansion since 2012. The plot is on the Petchburi road site. The company will build a 200-bed hospital facility. However, the construction was delayed due to waiting for the Environment Impact Assessment (EIA) approval. In January 2015, BH received the EIA

approval. The construction is expected to start in the first quarter of 2016.

BUSINESS ANALYSIS

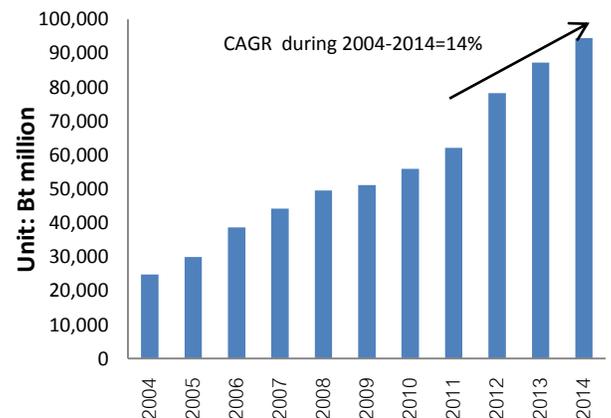
▪ **Leading private hospital in the premium segment**

BH's strong business profile reflects its market position as the leading private hospital in the premium segment of Thailand's healthcare service industry. The company's flagship hospital in Bangkok, Bumrungrad International Hospital, has earned very strong brand recognition, built over three decades. BH targets mostly premium local and foreign patients, and differentiates itself from its competitors based on superior services and the quality of the services it offers. The hospital is highly regarded for its broad range of specialist services, tertiary care, and use of advanced technologies.

BH is the second-largest SET-listed healthcare provider, in terms of revenue, following BDMS. In TRIS Rating's view, BH's ability to post strong and steady growth in revenues is underpinned by a strong brand name and a respectable clinical outcome. Over the past five years, except for the price inflation, BH's revenue has grown satisfactorily for two reasons: more patients and higher revenue intensity. In addition to the company's high quality in medical staff, BH continually invests in high technological medical equipments. Therefore, the company can undertake more complex cases and charge higher prices. Revenue intensity has played a larger role in driving the growth in BH's revenues over the past few years.

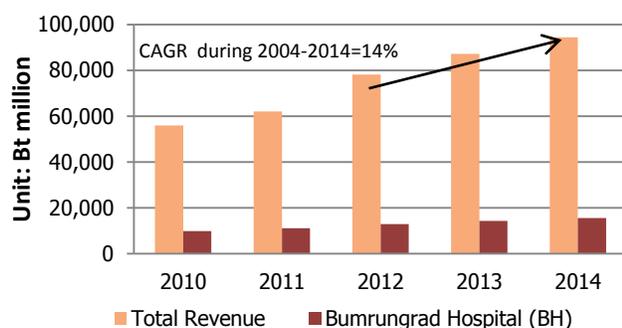
Total revenue of SET-listed hospital operators also grew significantly in 2004-2014, from Bt24,778 million to Bt94,405 million. The compound annual growth rate (CAGR) of BH in the past 10 years was 11%.

Chart 3: Total Revenue of SET-listed Hospital Operators



Source: Stock Exchange of Thailand (SET)

Chart 4: Total Revenue of SET-listed Hospital Operators and BH



Sources: 1) BH
2) SET

▪ **Strong position in the medical tourism segment**

BH’s business profile is supported by a strong share of the medical tourism segment, as Thailand is one of the most popular medical hubs in the Asia-Pacific region. BH has maintained a steady flow of foreign patients during the past several years. The number of foreign OP visits per day ranged between 1,400-1,600 patients during 2012 through 2014, or approximately 45%-50% of daily OP visits. Foreign patients have also accounted for about 50%-53% of the total IP admissions during the past three years.

About 60% of BH’s total revenue has been derived from foreign patients, particularly patients from the Middle East. Patients from the United Arab Emirates (UAE), BH’s top foreign patient group, have accounted for 8%-9% of BH’s total revenue during the past three years. BH’s strong market position among patients from the Middle East is derived from the company’s reputation in medical service and cost saving, compared with hospitals in developed countries. Revenue from patients in ASEAN also increased over time. In the first half of 2015, patients from Myanmar grew significantly, comprising 8.6% of BH’s total sales, while patients from Cambodia accounted for 3.5%. The growth in the number of patients from Myanmar was underpinned by the strong demand for healthcare, especially tertiary healthcare, from high income individuals.

In TRIS Rating’s view, by accepting foreign patients, BH has diverse sources of revenue, reducing its reliance on domestic demand and reducing the competitive pressure it faces. The large number of foreign patients also yields economies of scale, as overhead costs for hospitals accepting foreign patients are relatively high. The number of foreign patients significantly grew during the first six months of 2015 after it was partly affected by the recent economic downturn in Thailand and political instability over the same period of 2014. The total volume of foreign patients at BH grew by 17%-18% y-o-y during 2014 through

the first six months of 2015. The competitive price of medical services drove more foreign patients to visit hospitals in Thailand. However, political uncertainty remains the major concern for medical tourists.

▪ **Expand capacity to serve growing demand and lower the reliance on a single premise**

Over the next five years, BH plans to increase the capacities of the OP and IP departments at its flagship facilities. The company sets a budget of around Bt800 million for converting Bumrungrad Residence to office and clinic. BH’s renovation will be completed in 2016. In addition, the company also has expansion projects planned for its newly-acquired land plots on Petchburi road and Sukhumvit Soi 1. The plot on Petchburi road will house a 200-bed hospital facility. The campus will be used mainly for non-tertiary cares such as pediatrics, obstetrics, and gynecology. The total investment for the Petchburi road project is approximately Bt8,200 million (excluding the cost of land). The Petchburi road campus received the EIA approval in January 2015. The construction is expected to start in the first quarter of 2016 and finish by the end of 2018. The Sukhumvit Soi 1 plot will comprise three buildings, one of which is primary for parking lot. The other two buildings will be used for clinic. The capacity expansions will help reduce BH’s reliance on a single location.

▪ **Healthcare expenditures are expected to rise**

The Thai healthcare industry has grown steadily over the past 10 years. The CAGR of healthcare expenditures was around 10% from 2003 through 2013. Nationwide, healthcare expenditures rose from around Bt276 billion in 2003 to Bt662 billion in 2013. The growth was driven mainly by the public sector. After the introduction of the universal healthcare scheme in 2002, Thai citizens are covered by at least one of three public health protection schemes. The three schemes are the universal healthcare scheme, covering 40% of the population, the social security scheme (11%), and the civil servant medical benefit scheme (17%). Currently, Thailand is considered an aging society because the population aged more than 60 years old accounted for more than 10% of the total population. The National Economic and Social Development Board (NESDB) estimated that number of people aged 60 years old or higher will increase from 12% of the total population in 2010 to 18% in 2020 and 25% in 2030. The rising proportion of the elderly will increase the demand for healthcare services from both the public and private sectors.

FINANCIAL ANALYSIS**▪ Significant improvement in profitability**

BH's operating performance has strongly improved in the past five years. Total revenue grew to Bt15,630 million in 2014, from Bt9,936 million in 2010. The CAGR of BH during 2010-2014 was 12%. The rise was driven by price increases and an increase in revenue intensity. The company's operating margin, as measured by operating income before depreciation and amortization as a percentage of revenue jumped to 28% in 2014, from 23.5% in 2010. As a result, EBITDA improved to Bt4,605 million in 2014, up from Bt2,404 million in 2010. For the first seven months of 2015, BH's revenue rose to Bt8,769 million, up by 19% over the same period of 2014. Although the 6% y-o-y decline in the number of Thai patients, the number of foreign patients grew by 17% y-o-y. The improving political environment caused the number of foreign patients to grow significantly.

In the medium terms, TRIS Rating expects BH's revenue to grow by around 10% per annum. In addition, the company is expected to continue delivering solid operating performance in the next few years. The company's operating margin is forecasted to stay robust,

ranging between 28%-30% annually over the next three years.

▪ Sound capital structure despite expansion plans

BH's capital structure is expected to remain strong during its investment cycle. At the end of June 2015, BH's debt to capitalization ratio stood at 29.30%. Over the next three years, the company plans to spend approximately Bt16,000 million. The planned capital expenditures will cover both its expansion projects and maintenance. Dividend payments are expected to be Bt1,500-Bt1,600 million per annum, around 50% of net profit. BH had Bt5,364 million in cash on hand, while total debt comprised only Bt5,000 million in long-term bonds. FFO is expected to range from Bt4,000-Bt5,000 million per annum over the next three years. BH's cash on hand and its relatively stable cash flow from operations will be sufficient to fund its planned capital expenditures and dividend payments. Thus, its debt to capitalization ratio is expected to be around the current level. In addition, BH also has approximately Bt3,300 million in uncommitted, undrawn credit lines with banks. This amount gives BH plenty of financial flexibility to pursue any acquisition opportunity that may arise.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2015	2014	2013	2012	2011	2010
Sales and service revenues	8,769	15,630	14,346	12,983	11,136	9,936
Gross interest expense	92	186	148	241	189	68
Net income from operations	1,797	2,689	2,466	1,698	1,543	1,232
Funds from operations (FFO)	2,338	3,743	3,197	2,700	2,005	1,906
Capital expenditures	443	1,312	2,232	1,020	1,090	694
Total assets	20,219	19,145	17,252	15,985	13,473	9,152
Total debts	5,157	5,152	5,142	4,960	4,955	1,530
Total liabilities	8,070	7,885	7,655	7,474	6,739	3,082
Shareholders' equities	12,149	11,260	9,597	8,510	6,734	6,069
Depreciation & amortization	508	1,045	882	709	648	596
Dividends	912	1,385	1,386	912	693	620
Operating income before depreciation and amortization as % of sales	30.89	27.98	26.94	24.30	24.05	23.47
Pretax return on permanent capital (%)	19.58 **	17.03	22.97	21.77	23.21	24.61
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	30.77	24.75	27.87	14.32	15.24	35.24
FFO/total debt (%)	85.48 **	72.65	62.16	54.43	40.47	124.56
Total debt/capitalization (%)	29.80	31.93	34.89	36.82	42.39	20.13

* Consolidated financial statements

** Annualized with trailing 12 months

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